GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036
202 463-5200

August 18, 1999

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Ex Parte: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 – CC Docket No. 96-98

Dear Ms. Salas,

Today, the attached letter was delivered to Lawrence E. Strickling, Chief, Common Carrier Bureau and members of the Bureau staff.

Pursuant to Section 1.1206(a)(1) of the Commission's rules, and original and one copy of this letter are being submitted to the Office of the Secretary. Please associate this notification with the record in the proceeding indicated above.

If you have any questions regarding this matter, please call me at (202) 463-5293.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

GTE Service Corporation
1850 M Street, N.W., Suite 1200
Washington, DC 20036
202 463-5200

August 18, 1999

Lawrence E. Strickling
Chief, Common Carrier Bureau
Federal Communications Commission
455 Twelfth Street, S.W.
5-C450
Washington, D.C. 20554

Re: *Considerations on the Mandated Unbundling of Switching, CC Docket No. 96-98*

Dear Mr. Strickling:

We understand the Bureau is currently evaluating proposals that seek to differentiate between customer segments in its rule governing the mandatory unbundling of switching. Two such proposals under consideration by the Bureau would not require ILECs to unbundle switching for:

- customers with a threshold number of lines, *i.e.*, a subset of business customers; or,
- business customers with Hi-Cap (DS1 or higher) services; a smaller subset of business customers.

GTE has looked closely at these proposals and is concerned that they rely on an artificial customer-class distinction that does not reflect the use of alternatives to unbundled switching by CLECs in the marketplace. Since these proposals do not therefore satisfy the requirements established by the Supreme Court, GTE strongly suggests that the Commission, if it is intent on segmenting the market for switching, refocus its efforts on meaningful segmentation by geography.

As GTE demonstrated in its comments filed in this proceeding, switching is in essence a regional market. Competitive switches have been exhaustively deployed in many areas—virtually to the point of national coverage. To the extent coverage is lacking in certain markets, CLECs have proven their ability to self-provide switching in markets of all sizes. Remote switches or modules can extend the range of a switch over 650 miles, and a competitive retail market for switches provides scalable solutions tailored to CLECs of all sizes. While additional factors, such as geography, still may affect the market for switching and the development of local competition, it is fundamental to recognize that switched traffic is the same whether generated by a residential or a business customer. CLECs use their own switches to serve both kinds of customers, particularly in densely populated areas. Additionally, many customers that pass the thresholds in these proposals (based on line counts or DS1 service) already have PBXs and largely bypass the local network. This demonstrates that CLECs are not deploying their own switches just to serve the largest business customers and, as demonstrated below, a

rule based on customer segmentation would require ILEC switch unbundling for the vast majority of customers already served by competitive switches today.

As Chart 1 (enclosed) demonstrates, there is an extreme disconnect between the large percentage of lines in rate centers already served by CLEC switches and the small percentage of lines for which switching would not be unbundled under the proposed criteria based on customer segmentation. Even in the least dense Zone 3, Chart 1 shows that nearly 70% of GTE's lines face competitive switches. In Zone 1, over 92% of GTE's lines are in areas served by competitive switches. By contrast, the Staff's customer segmentation proposals would potentially remove from switch unbundling obligations less than 10% of GTE's lines and less than 1% of GTE's customer base.[1] By any reasonable measure, there must be a logical relationship between the deployment of alternative (non-ILEC) network elements and the mandated sharing requirements that the Commission contemplates. For switching, customer segmentation simply cannot satisfy this requirement.

In contrast to an artificial customer segmentation of switching, geographic segmentation across zones that share homogeneous characteristics could serve as a foundation for a reasonable unbundling rule. As you are aware, the Supreme Court has required that any unbundling rule account for the actual marketplace use and availability of alternatives to unbundled ILEC switching. Appropriate zoning would enable the Commission explicitly to account for marketplace use and availability as well as the economical geographic reach of a switch or remote--a consideration every facilities-based CLEC must undertake as it plans market entry. As shown by the overwhelming evidence submitted in the record to this proceeding, most CLECs have demonstrated an incentive and ability to deploy their own switches; this appears to be true on a national scale and emphatically so within Zone 1 and Zone 2 offices.[2]

With an apparent belief that the UNE-P is necessary to reach residential customers, the Bureau staff may be considering CLEC positions that availability of a switching UNE should hinge on other factors, such as a CLECs' ability to obtain (1) unbundled loops, (2) collocation space in ILEC central offices, and (3) economical transport to CLEC switches. *First*, the Commission must recognize that any geographic segmentation of unbundled switching must, to satisfy the requirements established by the Supreme Court, examine how these issues actually effect CLECs operating in different geographic markets. The costs of building loops may be higher in

1. These estimates are conservative in that they focus on the actual provision of a competitive switching alternative, not on other areas where entry is economical and competitive switches could be deployed at a CLEC's will.
2. *See* Joint *Ex Parte* of GTE, BellSouth, Bell Atlantic, Ameritech, SBC, and US West, dated July 28, 1999.

rural markets, for example, due to the greater distance between customers and central offices. Likewise, in rural areas, the costs of back-hauling traffic may be higher (or lower) than in urban ones depending on the additional distance traffic must be carried and the terrain of an area. Nevertheless, any unbundling rule based on these theoretical considerations must examine how these costs, to the extent they are significant, actually affect the decisions of real-world CLECs to deploy their own switches. In Zone 1 and Zone 2 markets, at a minimum, it is clear that any difficulties associated with manual cut-overs, collocation, and traffic back-haul have *not* deterred CLECs from serving *both* business and certain residential customers using their own switches, even when they rely extensively on unbundled ILEC loops.

Second, GTE has promptly implemented the new federal collocation policies, which the Commission recognizes "reduce the costs and delays faced by competitors that seek to collocate equipment in an incumbent LECs central office."[3] The Commission has largely relied on Section 251 negotiations and state proceedings to implement these new collocation policies and facilitate CLEC market entry. Accordingly, it should allow time for these newly adopted procedures to work since they were just implemented less than three weeks ago.

Third, the Commission should in general be wary of setting its long-term switch unbundling policy based on short-term operational issues, some of which reflect only unsubstantiated allegations by CLECs. As GTE and others have shown, CLECs have many transport alternatives and most often self-supply transport, purchase transport from wholesale providers, or use ILEC special access offerings in wire centers with at least 15,000 lines. In fact, at least one of these options is deployed by CLECs in every GTE wire center with operational collocation, disproving claims at least by some CLECs that transport alternatives are widely unavailable.[4] Furthermore, other "operational" concerns expressed by the CLECs, such as the ability to "cut-over" customers from an ILEC to the CLEC, service quality and maintenance issues, and OSS performance standards, are being addressed aggressively by the states.

---

3. *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, First Report and Order, CC Docket No. 98-147, FCC 99-48, released March 31, 1999 at ¶6.

4. *See e.g.,* ALTS Reply Comments at 47. Likewise, some parties have advocated the need for loop/transport combinations, or "extended loops" that would reduce CLEC reliance on collocation. GTE would be willing to consider such arrangements provided (1) loop/transport offerings could either be priced consistent with existing special access services or restricted to local exchange use only and (2) a switching UNE is not mandated in areas where extended loops become available. To require extended loops without these safeguards would produce arbitrage opportunities by regulatory fiat. A fundamental policy objective of state and federal regulators should be to eliminate uneconomic price signals, not to create new ones.

Fourth, to the extent that the Bureau's proposals effectively result in the UNE-P for certain customers, it should recognize that UNE-P cannot *per se* facilitate efficient competition for residential customers. The majority of residential customers will remain inefficiently foreclosed from local competition while businesses and high-end residential customers will be inefficiently targeted by CLECs that exploit implicit support in local rates. For example, as shown in the enclosed Chart 2, over three-fourths of residential customers in GTE's Texas service areas have total retail revenues that are less than the ordered rates for all network elements that would comprise the UNE-P. Specifically, assuming a CLEC does not discount prices relative to GTE and incurs no acquisition costs, it still would lose an average of $10.96 monthly on each of the 30% of residential customers who spend less than $25 per month, and it would lose an average of $0.32 monthly on each of the 48% of customers who spend $25 to $50 per month. Rather than attempting to retrofit the unbundling rules to compensate for inadequate local rate rebalancing, the Commission must establish unbundling rules that fully reflect the availability of alternative switches. At the same time, the Commission's collective actions in this and other proceedings should provide positive incentives for states to untangle the web of implicit support mechanisms, thereby addressing head on any perceived "need" for the UNE-P.

We would welcome an opportunity to discuss the development of a geographically segmented unbundling rule for switching that reflects the actual capabilities and switch deployment of facilities-based CLECs. Thank you for your attention in this matter and please feel free to contact me at (202) 463-5293 if you have any questions or would like to discuss these issues further.

Sincerely,

W. Scott Randolph
Director – Regulatory Matters

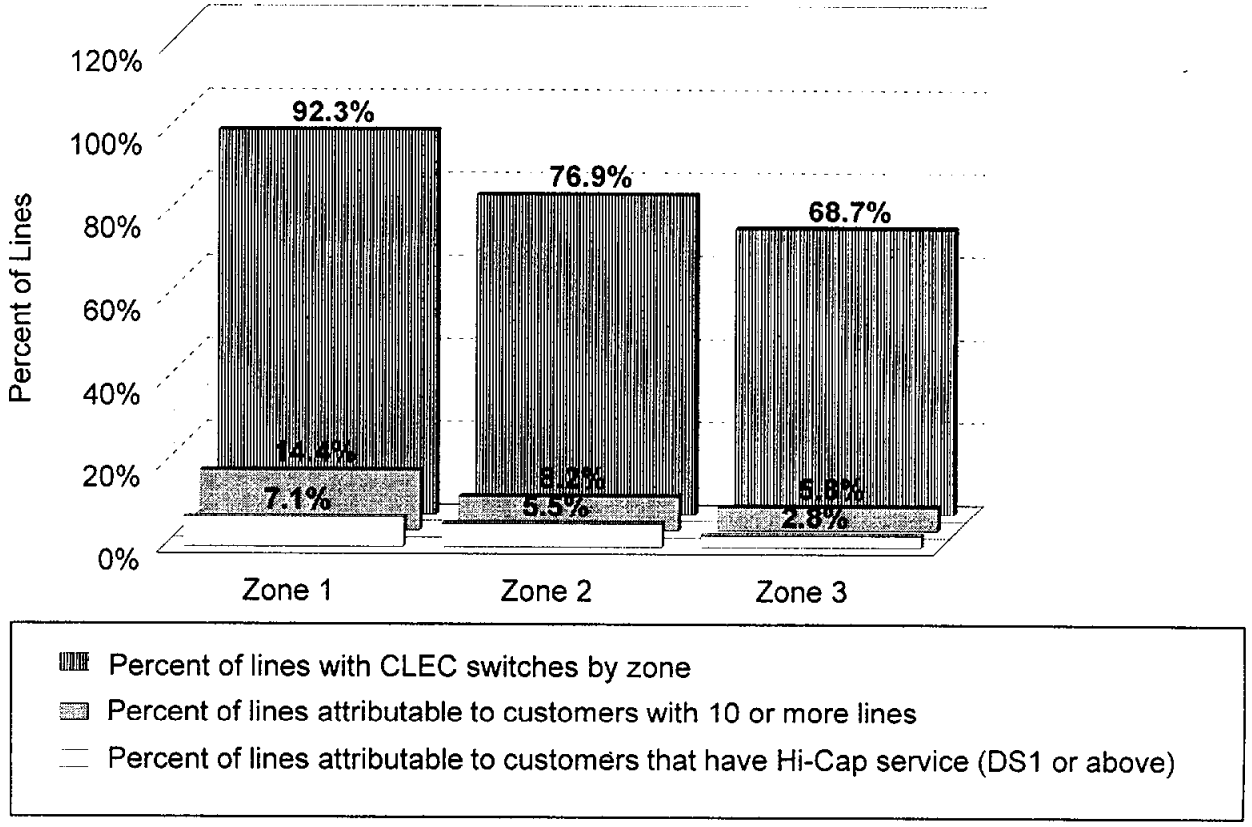
Attachments

cc: Robert Atkinson
Claudia Fox
Jake Jennings
Carol Mattey

Chart 1. The vast majority of GTE switches that already face CLEC switches would be subject to switch unbundling and UNE-P obligations under a customer segmentation approach.

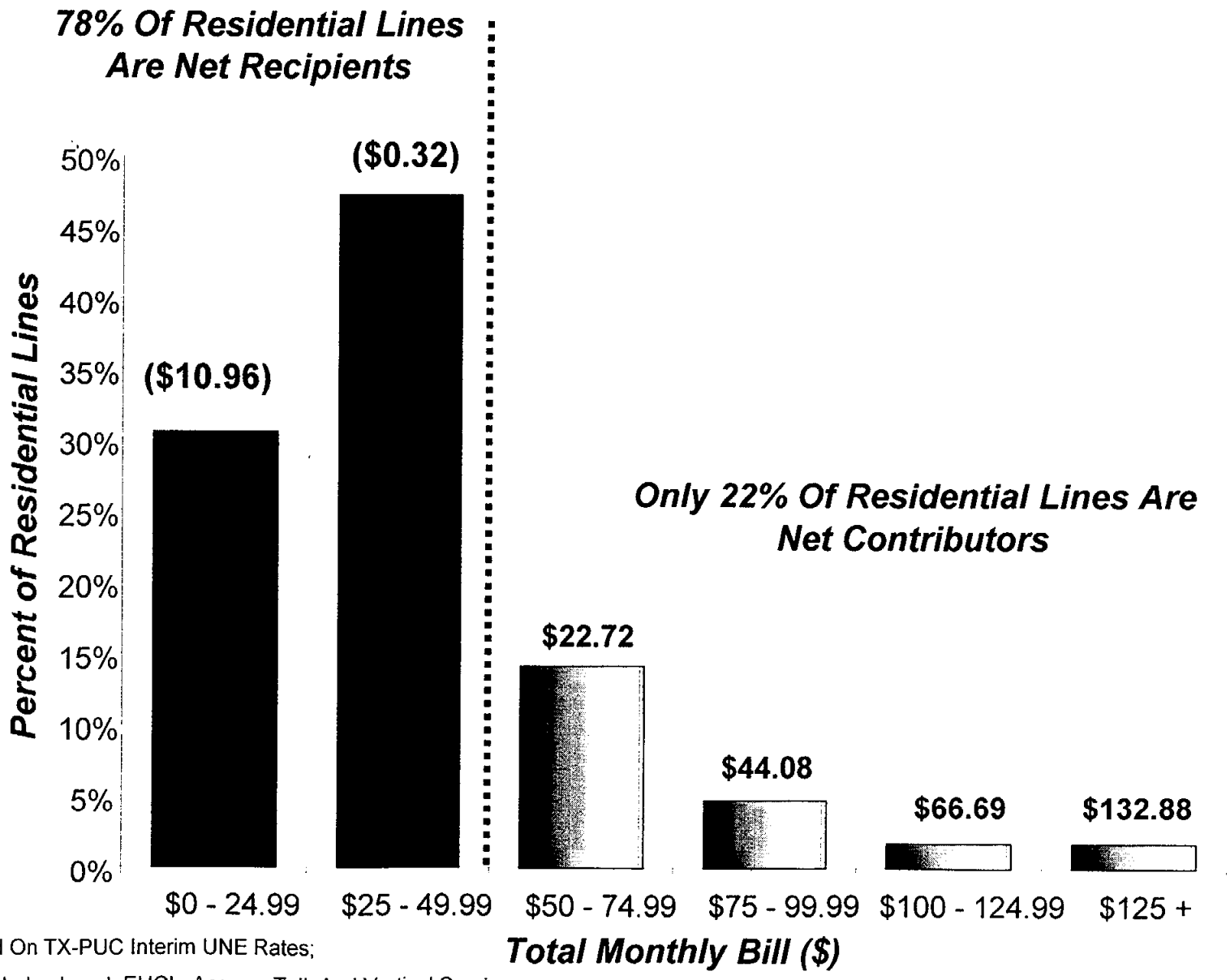
August 1999

A Comparison Of GTE Wire Centers With CLEC Switches Against The Percent of Customers With 10 or More Lines or Customers With A DS1 Or Above



While 69% - 92% of GTE's lines by zone are in wire centers with CLEC switches, these proposals would remove switching as a UNE for less than 10% of GTE's lines and less than 1% of GTE's customer base.

Chart 2. GTE's Texas Residential Segments



* Costs Based On TX-PUC Interim UNE Rates;
Total Bill Includes Local, EUCL, Access, Toll, And Vertical Services.